11/2/77 [3]

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THE PRESIDENT'S SCHEDULE

Wednesday - November 2, 1977

8:15	Dr. Zbigniew Brzezinski - The Oval Office.
8:45	Mr. Frank Moore - The Oval Office.
10:30	Mr. Jody Powell - The Oval Office.
12:30	Lunch with Mrs. Rosalynn Carter - Oval Office.
8:40	Depart South Grounds via Motorcade en route Capital Hilton Hotel.
8:45	Address World Jewish Congress.

THE WHITE HOUSE
WASHINGTON

November 2, 1977

Stu Eizenstat

The attached was returned in the President's outbox. It is forwarded to you for your information.

Rick Hutcheson

UNSIGNED CRBR LETTER TO SENATORS

THE WHITE HOUSE

WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
/		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		GAMMILL

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

October 31, 1977

not
sent
J

MEMORANDUM TO THE PRESIDENT

FROM: STU EIZENSTAT Stu
KITTY SCHIRMER

SUBJECT: CRBR LETTER TO SENATORS

Attached, per your request, is a possible letter to all Senators on funding the CRBR through the FY 1978 Supplemental Appropriation. This legislation is expected on the floor November 1.

It is highly unlikely that an amendment to subject the CRBR appropriation to enactment of authorizing legislation will succeed. Even if it were to pass the Senate, it would almost surely fail in Conference.

We do not believe it makes sense to send a letter at this time, since it will further identify you with an almost certain defeat. Moreover, we have not yet made a decision on whether to sign the Supplemental Appropriation. This letter implies that you might veto that bill, and should you later decide to sign it, this would be construed as backing down. Frank Moore and Jim Schlesinger concur in this recommendation.

Within the next day, we will be sending you a detailed memorandum on the options available to you on the CRBR with particular emphasis on the impacts of vetoing the Supplemental Appropriation. The memo will be drafted jointly by our staff, OMB, NSC, and the Department of Energy.

If you decide to send this letter, we urge that Frank advise Senator Jackson and other Senators before it is sent. Although Jackson's interests as Chairman of the Energy Committee are infringed by the precedent of appropriating of funds not contained in authorizing legislation, he will probably not support an amendment to correct this. He should know beforehand that we are going to make this argument for him.

THE WHITE HOUSE

WASHINGTON

To Senator Byrd

The Senate will soon begin consideration of H.R. 9375, a bill providing Supplemental FY 1978 Appropriations. This bill, as reported by the Appropriations Committee, would appropriate $80 million for the Clinch River Breeder Reactor Project, whether or not legislation authorizing this expenditure has been enacted.

As you know, I believe that continuation of the Clinch River Breeder Project will waste taxpayers' dollars, and is not a necessary component of a strong, well-directed breeder R & D program.

I have strongly supported a vigorous R & D program for advanced nuclear technologies, including the liquid metal fast breeder, alternative breeder cycles, and advanced non-breeder technologies. We must explore every reasonable energy option, including breeder technology, to ensure that we have the energy supplies needed to make the transition from oil and gas to other sources.

But the Clinch River Breeder Reactor Project is an expensive, uneconomical, and technically out-of-date facility which will add little to our understanding of how to design a commercial scale breeder reactor. It was originally justified as part of a crash program to bring commercial breeder technology into being in the early 1990's. Even without the savings anticipated by the National Energy Plan, current energy demand forecasts show that commercial breeder technology will be neither necessary nor economical in this country until after 2000.

The $80 million contained in H.R. 9375 continues a commitment to spending the additional $1.4 billion which would be needed to complete the CRBR. This massive expenditure simply cannot be justified by the very low level of benefits to be received from this project.

Finally, I believe that expenditures such as this should be subject to the annual authorization process. Just this year, in the Act creating the Department of Energy, the Congress insisted that each of DoE's major functions be subject to annual authorization as well as to annual appropriation. In just three short months, however, this determination of the Congress is being subverted by an attempt to appropriate funds for the CRBR without regard for the authorization process.

I urge you to help me redirect our breeder R & D program, and at the very least, ensure that the CRBR funding issue is decided in the authorization process.

Sincerely,

The Honorable Robert C. Byrd
Majority Leader
United States Senate
Washington, D.C. 20510

ADMINISTRATIVELY CONFIDENTIAL

THE WHITE HOUSE

WASHINGTON

November 2, 1977

Stu Eizenstat
Charles Schultze

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

cc: The Vice President
Hamilton Jordan
Frank Moore
Jody Powell
Jack Watson

RE: FINAL STEPS ON HUMPHREY-HAWKINS

THE WHITE HOUSE

WASHINGTON

Admin Confid

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
	✓	MONDALE
		COSTANZA
✓		EIZENSTAT
	✓	JORDAN
		LIPSHUTZ
	✓	MOORE
	✓	POWELL
	✓	WATSON
		McINTYRE
✓		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

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		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

October 26, 1977

Charlie & Stu: Go over new draft carefully c Mike, Juanita & Ray before any announcement J

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
CHARLIE SCHULTZE CLS

SUBJECT: Final Steps on Humphrey-Hawkins

You have our memorandum of October 19 which reports on our latest discussions with the sponsors and recommends that you approve the final version which has been negotiated.

If you approve, we suggest the following steps:

(1) We notify Senator Humphrey and Congressman Hawkins of our acceptance of their latest proposal and provide a draft of the text to assure all are agreeing to the same bill.

(2) Hawkins and Humphrey would need time to secure the support of the Black Caucus, AFL-CIO, Civil Rights and Church groups for the agreed on bill. We are told this process should take no more than a week to ten days. We might use this time for a carefully coordinated effort to inform key business leaders and members of Congress of the elements in the compromise legislation.

(3) The agreement should be announced on Capitol Hill by Humphrey and Hawkins to be closely followed by a White House statement with Charlie available to the press for a background briefing to stress the moderation and flexibility of the bill. A draft statement is attached.

(4) If Humphrey and Hawkins press for a meeting with you, we should agree -- but should not tie the announcement to the meeting.

Note: We considered sending a letter to the sponsors detailing our understanding of the compromise. However, we feel that the sponsors stand the best chance of gaining broad support among their constituent groups for the compromise if they have the opportunity to present the case themselves. We will exchange texts of the bill to lock in our understanding.

Proposed Text of Press Statement Announcing Administration Support of the Revised Full Employment and Balanced Growth Act

In recent months members of the Administration have met on a number of occasions with Senator Humphrey, Congressman Hawkins and their representatives to discuss the Full Employment and Balanced Growth Act. These discussions have led to agreement on a bill that I am happy to support.

As amended, the Full Employment and Balanced Growth Act would accomplish a number of important objectives:

o Establishing the commitment of the Federal government to the achievement of full employment.

o Establishing the commitment of the Federal government to reasonable price stability as a goal that must be addressed simultaneously with the achievement of full employment.

o Establishing a framework for economic policy decisions. Annually the Administration would lay out its goals for employment, unemployment, production and income over a five-year period. The Congress would have the responsibility to consider these goals and establish its own annual goals.

o Establishing as the interim goal for 1983 an overall unemployment rate of four percent [~~three percent for adults~~], with flexibility for the President to change that goal if it proved unattainable.

o Recognizing that [~~the tragedy of~~] high unemployment must be fought with a variety of weapons -- including special government efforts -- with the primary emphasis on expanding job opportunities in the private sector.

o Recognizing that the achievement of full employment and price stability must be sought through the use of monetary and fiscal policies, with the help of structural measures designed to improve the functioning of the nation's labor and capital markets, rather than government planning or control over private production, wages and prices.

Title III of the bill sets forth procedures for Congressional consideration of the annual goals. While the specific procedures are for the Congress to decide upon, it is important, in my judgment, that the Congress integrate its annual deliberations on economic goals with its annual concurrent budget resolution process.

I would like to thank Senator Humphrey, Congressman Hawkins and the others who have worked diligently and in a spirit of cooperation to reach agreement on this important legislation.

THE WHITE HOUSE
WASHINGTON

November 2, 1977

Stu Eizenstat
Charles Schultze

The attached was returned in the President's outbox. It is forwarded to you for your information.

Rick Hutcheson

RE: HUMPHREY-HAWKINS; FINAL ROUND

12:00 PM

THE PRESIDENT HAS SEEN.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

outdated
J

October 19, 1977

MEMORANDUM FOR THE PRESIDENT

From: Stu Eizenstat Stu
Charlie Schultze CLS

Subject: Humphrey/Hawkins; Final Round

We are down to the final round with the sponsors of the bill. They have agreed

1. To move the date for the attainment of the legislated unemployment goals (4 percent total, and 3 percent adult), from 1982 to 1983.

2. To eliminate reference to interim targets which had been included in some previous drafts (the interim targets were 4-3/4 percent total and 3-3/4 percent adult unemployment by 1981).

3. To provide that the President could in 1981 or later, recommend changes in the goals without getting explicit approval from the Congress.

4. To delete earlier language which would have forbidden the President to modify the unemployment goals should this be necessary to control inflation. The new language on this point provides that in choosing means to achieve the goals of price stability and unemployment, "those means which are mutually reinforcing shall be used to the extent practicable." (We believe that this language preserves your flexibility to modify economic policies to control inflation as you deem necessary, even if -- having exhausted other approaches -- this requires some modification of the unemployment targets.)

From the sponsors' standpoint, all of this is a "package deal." If we do not agree with the 4%/3% unemployment goal in 1983, they in turn will withdraw other concessions.

We tried to get them to accept language which specified the 1983 goals as "about 4%" and "about 3%." The "about" language is not in itself important, but simply helps add some image of flexibility in the bill to counter conservative and moderate critics. The sponsors would not agree -- for precisely the opposite reason; they want an image which, to the maximum extent possible, appears to bind the President to hard targets.

We also pointed out to the sponsors that even if final agreement could not be reached on specific unemployment goals for a specific date, the Administration could still warmly endorse the bill, and merely note that we would, in the hearings, suggest a few improvements -- as is often the case with legislation developed on the Hill. At first they seemed responsive, but then their position hardened and they have pressed strongly for full agreement on all points. In the process they warned that if full agreement were not forthcoming, some of their other concessions might have to be withdrawn leading to a public confrontation between the Administration and the Black Caucus.

Charlie Schultze thinks that reaching the 4%/3% goals without setting off inflation, while not impossible, is highly unlikely. (Ray Marshall disagrees.) Your support for this element of the bill will produce some criticism that you have committed yourself to an inflationary set of economic policies over the long run. Moreover, since the bill will still be known as the Humphrey-Hawkins bill, despite its extensive revisions, your endorsement will be construed by many moderates and conservatives as support for a bill under which the government engages in comprehensive national planning with an inflationary bias -- even though the revised bill has little of such national planning left in it. There might be some merit in deliberately retaining a few disagreements with the sponsors in order to preserve some slight distance between the Administration and the sponsors. While the bill is unlikely to pass anyway (especially in the Senate), we will have taken on the onus of giving it a new lease on life.

The following considerations, however, suggest that we should agree to the final proposals of the sponsors; and endorse the bill in its entirety:

1. The sponsors have made a number of major concessions, to eliminate the troublesome employment program authorizations, to increase the President's flexibility, to postpone the date at which the employment goals are to be reached, and to cut way back on the national planning aspects of the bill.

2. The 4%/3% goals can be modified if necessary (although the President has to take the onus on himself to do so).

3. While the sponsors may be bluffing, failure to agree on the 4%/3% goals will probably bring a storm of reaction from the Black Caucus, even if you endorse the rest of the bill.

4. We can, in our public statements and background comments, stress how much the bill has been modified and how much flexibility the President retains.

We recommend that you accept the sponsors' final proposals and endorse the bill.

________________________Agree

________________________Insist on no date for reaching 4%/3%

________________________Other

Mike Blumenthal -- who has been kept roughly up to date on the negotiations -- is very wary of an endorsement. We recommend you discuss it at lunch with him tomorrow.

We also recommend that you meet with Secretaries Kreps and Marshall to solicit their views before you make your decision.

Relationship to Budget Act

There is one additional issue. As introduced, the Humphrey-Hawkins bill provides a concurrent resolution process for the Congress to concur in, or modify for their purposes, the goals set by the President. (These resolutions would not bind the President.) This process would be separate from the existing Congressional budget process, and would be within the jurisdiction of the Joint Economic Committee rather than the Budget Committees. This presents two problems:

- If the Congress votes on economic goals separate from the budget, they are much more likely to set unrealistic goals.

- The leaders of the House and Senate Budget Committees (particularly Senator Muskie) strongly object to separate economic and budget resolutions, and are likely to strongly attack the merits as well as the procedure if the issue is not resolved. Senators

Muskie and Bellmon have written you a strong memo on this point.

Recommendation

We recommend that any Presidential endorsement contain the caveat the bill should be modified to closely coordinate the process of economic goal setting with the budget process. This would be acceptable to Representative Hawkins and Senator Humphrey.

_________ Agree

_________ Disagree

Strategy for Announcement

We think it is important to take time before formal announcement of your position to brief members of Congress and the business community of the changes which have been made in the original proposal, making the final compromise far more moderate. We suggest announcement a week from today at the earliest.

_________ Agree to one week delay

_________ Disagree

_________ Announce without meeting.

THE WHITE HOUSE
WASHINGTON
October 20, 1977

The Vice President
Midge Costanza
Hamilton Jordan
Bob Lipshutz
Frank Moore
Jody Powell
Jack Watson
Jim McIntyre ~~will comment~~ attached
Bunny Mitchell

The attached has been submitted to the President and is forwarded to you for your information. If you do wish to comment, I will be submitting comments to the President on Monday at 12:00.

Rick Hutcheson

RE: HUMPHREY/HAWKINS; FINAL ROUND

THE WHITE HOUSE
WASHINGTON

November 2, 1977

Charles Schultze

The attached was returned in the President's outbox and is forwarded to you for your information.

Rick Hutcheson

cc: Stu Eizenstat

RE: FULL EMPLOYMENT

THE WHITE HOUSE

WASHINGTON

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	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

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/		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
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		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

For release on delivery, 1:00 p.m
September 27, 1977
W. W. Rostow

THE PRESIDENT HAS SEEN.

Schultze
J

FULL EMPLOYMENT

Introduction

In the next half hour I shall try to do five things:

-- Summarize the Carter Administration's plan for reducing unemployment and indicate my basic reservations about that plan.

-- Suggest a concept of expanded investment in certain specific basic resource sectors which could, indeed, bring us to sustained low unemployment and rapid growth by 1981, if not sooner.

-- Consider briefly the relation of full employment to the problems of poverty and welfare policy discussed at length this morning.

-- Make a few observations on the problem of inflation.

-- And, finally, link the return to full employment to the problems of the major regions of the country.

The Administration's Economic Plan

The Carter Administration has articulated its economic objectives with admirable lucidity:

-- reduce unemployment to 4-3/4% by 1981;

-- balance the Federal budget by 1981, with a surplus of $25-40 billion available for tax reductions or high priority Federal programs;

-- reduce the share of Federal spending in the gross national product from 23% in 1976 to 21% by 1981.

To achieve these objectives, an average rate of real growth of 5-1/4% will be required as well as a reduction in the price-wage spiral which now guarantees an underlying inflation rate of about 6%.

To bring about these results, the Carter Administration proposes "general economic stimulus" to both consumers spending and private investment plus "targeted jobs programs." It plans to reduce the inflation rate primarily by inducing voluntary cooperation to that end between business and labor.

If these goals are to be achieved, the measures undertaken also require confident American consumers who will spend about 94% of their income; and, above all, it requires an annual growth of 9-10% in business capital outlays in real terms.

The intelligent and articulate men and women now managing our economic policy in Washington are, evidently, quite conscious of the unique circumstances we all confront in the late 1970's. But it is not unfair, I believe, to characterize their plan as a kind of attempted replay of the great neo-Keynesian economic expansion of the Kennedy-Johnson years, this time without a large expansion in military expenditures but with what might be called a Ray Marshall addendum in the form of a substantial public services job program.

I am sceptical that it will work. I am sceptical because this is not the early 1960's. At that time energy, food, and raw material prices were relatively low. The real expenditures of consumers were rising rapidly --

at about 5% a year. Between 1971 and 1976 -- two comparable years in terms of the business cycle -- the rate was only 3.3%. The real outlays by consumers for energy-intensive automobiles and durable consumers goods rose at an annual rate of 10% between 1961 and 1965. The figure for 1971-76 was about 5%. Fixed investment in residential housing rose at an annual rate of over 5% in 1961-65; for 1971-76 the figure was minus 2%. In 1961-65 the total real government outlays for education, health, and other goods and services rose at an annual rate of 3.5%; for 1971-76 the figure was 1%. It was against this background that real private business investment rose at an annual rate of almost 10% in the first half of the 1960's, whereas it declined at an average rate of 0.6% between 1971 and 1976, despite some revival from the trough of the 1974-75 recession. I have no doubt that a more vigorous use of fiscal and monetary policy could improve somewhat on the figures for 1971-76; but a precarious balance of payments limits the use of those tools. In addition, as we shall see, labor and capital are urgently required for certain specific purposes which a generalized expansion of demand would fail to target.

I have cited this barrage of figures to drive home a simple point. The rise in prices of basic commodities after 1972 not only produced the sharp recession of 1974-75, it also altered the basic structure of our economy, as it did the economies of Western Europe and Japan. Strong, sustained expansion cannot be expected through a rapid rise in consumers real income translated into increased expenditures on automobiles, durable consumers goods, and houses, leading in turn to rapid expansion of private investment. Agricultural prices in the time ahead will fluctuate with the world's harvests; raw materials prices will depend on the pace of revival of the world economy; but we know energy prices will continue to rise in real terms; and we know we cannot count on the kind of stimulus from conventional public expenditures for social services we experienced in the 1960's.

The key question is then: How can we create in the late 1970's and 1980's an environment in which the investment rate will rise sufficiently to bring us and hold us at the average growth rate of 5-1/4% required to achieve and sustain full employment? I might note, parenthetically, that the OECD in Paris and the CIA project a U.S. growth rate of about 4.5% for the years ahead. Despite the scepticism of these friendly observers about the Carter Administration's target of 5-1/4%, I believe the higher rate is, in fact, attainable.

Investment in Key Sectors

How? The route to full employment and rapid growth is, in one sense, obvious; in another sense, difficult.

It is obvious if one breaks out of neo-Keynesian economics and asks the simple question: Where are the nation's great problems that require large investments? The answer is, surely, in these fields:

-- energy production and conservation;

-- water development, conservation, and transfer;

-- investment in our transport system to deal with energy problems, to provide cost-effective urban mass transit systems, and to rehabilitate obsolescent parts of the transport network;

-- land rehabilitation and forestry development (including development for biomass energy) and the modernization of rural life, especially in the impoverished rural regions of the South;

-- the reduction of air and water pollution;

-- and expanded research and development in energy and other resource fields.

I have tried, but failed, to generate from Washington estimates of the orders of magnitude of the investment required to meet the nation's palpable needs in these fields; although the work of the U.S. Water Resources Council and the National Transportation Policy Study Commission should yield such estimates in time. But in energy we have a pretty good feel, at least, for the answer as a result of work done here at the University of Texas at Austin.

To fulfill the targets of President Carter's National Energy Plan will require some $770 billion in investment in 1976 dollars between now and 1985. This would constitute a jump in the proportion of fixed private investment in energy-related fields from 18% in 1974 to an average of more than 30% over the period 1977-85. This is a very large shift, indeed; and, if accomplished, would provide powerful simulus to the economy. It requires energy investment to expand at over 7% per annum. We have also calculated the regions in which this investment would have to take place. It is not evenly spread, but enlarged energy-related investment is required in all the regions. As you all know, there is considerable scepticism that the provisions of the energy bill that emerged from the House of Representatives will, in fact, achieve the Administration's production and conservation targets. But it is obvious that an all-out national effort to fulfill those targets would take us a long way back to full employment and rapid growth. I should add that the energy investment estimate I gave you excludes transport, housing, and other infrastructure that would be associated with an effective national energy plan.

In surveying the information now available on investment requirements for water, transport rehabilitation and development, pollution control, and research and development, I could not derive equivalent approximate figures. But from what we do know, they also require large additions to current investment levels if the nation's needs are to be met.

From surveying these fields and the nation's authentic requirements in them, I, at least, emerge with confidence that the means to full employment are at hand, if we address vigorously resource problems which will become progressively more serious with neglect.

Why, then, is the problem difficult? It is difficult for related intellectual and institutional reasons. Intellectually, our leading economists of what is sometimes called the mainstream, be they Republican or Democratic, are experts in manipulating effective demand. Children or grandchildren of John Maynard Keynes, they are awkward in handling the kind of resource and supply problems which have marched to the center of the stage so disconcertingly in the 1970's. Institutionally, we do not yet have the tools to mount large investment programs in these resource fields. We know how to raise or lower the Federal Reserve discount rate and the rate of expansion of the money supply.

We know how to enlarge or diminish the Federal budget deficit. Since the 1930's, we have learned how to carry out public service job programs. But we lack the institutions for mounting the kind of public-private sector collaboration required to increase investment in the necessary directions.

That is why the leadership of Governor Carey, Governor Grasso, and Felix Rohatyn in pressing forward a Northeast energy development corporation was so important, as was the generalization of the concept by the Midwestern Governors' Conference and the National Conference of Lieutenant Governors in August. They extended the role of regional banks beyond energy to water, transport, and other urgent needs. As the Midwestern Governors said in their energy resolution: "An aggressive, constructive program to deal with this [the energy] crisis could not only alleviate potential economic and human suffering and strategic danger, but also bring real benefits to the region and to the nation in terms of a stronger economy and reduced unemployment." The officials in our states have been the first of our leaders in public life to perceive the connection between a vigorous attack on urgent resource problems and the return to full employment.

It now appears that we shall have hearings in the Senate this autumn on regional development banks.

Before we're fully geared to the tasks of the 1970's and 1980's, we may also need a national equivalent of the old Reconstruction Finance Corporation, as Nelson Rockefeller has counseled; a new way of organizing our federal and state budgets that would separate investment from conventional expenditures; and we shall certainly need a new spirit of public-private cooperation.

Poverty and Welfare

How does this concept relate to the discussion we had this morning about the nation's problems of poverty and welfare? Only in an environment of rapid growth and high demand for labor are we likely to make a serious dent on the hard core unemployment of our northern central cities and the hard core rural underemployment in the South. I would not deprecate the measures being taken or envisaged to deal with these problems; but if we wallow along with high average unemployment and a weak demand for labor, we shall, to a degree, be pushing on a string. In a high employment economy, businessmen cease to look on these pools of potential labor as a sad social phenomenon and begin to view them as a badly needed part of the working force. That happened to a significant degree in the 1960's when we got unemployment down to 4% or less. When average unemployment was under 4%, minority unemployment came down under 7%. Right now it is twice that level.

Much the same is to be said about President Carter's proposed welfare reforms. They are quite explicitly geared to the provision of more jobs. But if present high average unemployment continues, we shall have difficulty sustaining our present welfare system, let alone expanding it.

Inflation

My observations on inflation will be similarly brief, for it is evidently a large field we cannot fully explore today.

Right now, money wage rates are rising regularly at about 8% a year. The average level of the nation's productivity increase is, hopefully, a bit over 2%. Labor costs per unit of output therefore rise regularly at about 6% a year, despite high unemployment. Food prices rise and fall with the world's harvests, raw material prices with fluctuations in demand from North America, Europe, and Japan. But our underlying inflation rate is a corrosive 6%. Business and labor expect some such rate to continue. They act to protect themselves against it. Thereby, they bring about what they fear. We are like a dog chasing his tail. All the public opinion polls of which I am aware rate inflation as the most serious of the nation's problems.

If, in fact, we start moving to full employment, it is likely that this underlying wage-push inflation rate will rise. I see no other way for us to reconcile the palpable need for low unemployment with effective constraint on inflation than what I once called, with an evident debt to Rousseau, a Social Contract; that is, an agreement among business, labor, and government to discipline money wages to the nation's increase in productivity in ways which were equitable for labor in two different fashions. First, there must be equity as among the different labor unions and groups in the society. They negotiate their contracts at different times. The bringing in of a Social Contract must take account of this fact and will require some time to bring about. Second, there must be equity as between labor and capital. The acceptance of money wage discipline must not be the occasion for an inequitable shift of income from wages to profits. Above all, negotiated arrangements must look to a long term, sustained effort. That is the only way to break out of the self-fulfilling expectation that inflation will continue, short of a disastrous and protracted depression.

I am fully aware that the control of inflation in democratic societies has worked well only for relatively short periods. It is an inherently difficult task. But I see no way to end inflation without taking stock of what we have learned from the past and trying again in deadly earnest. For it is, in fact, a vital interest of business and labor, as well as the national community as a whole, that this debilitating disease be brought firmly under control.

Full Employment and the Regions

Now, finally, a few words about full employment and the major regions. It is a convention -- honored in both the setting of the Carter Administration's targets and in my discussion thus far -- to talk about the average national unemployment level and the average real rate of growth. I believe we have come to a time when we shall have to disaggregate our thought and statistics from a national to a regional basis just as we have to disaggregate our thought and statistics about investment down to a sectoral level.

As of the first quarter of 1977, the average national unemployment level was about a point higher than it is now: 8.2%. But the range among the states was between 13.9% and 3.6%. Thirty-two states had unemployment levels below 8.2%. Of these, all but five were in the South, Southwest, or the West. Those above 8.2% included New Jersey, New York, Connecticut, Pennsylvania, Michigan, and California, with Ohio barely below the average at 8%. In talking about unemployment, we are not, then, talking about a homogeneous nation. And our policies to reduce unemployment must be, to a significant degree, regionally targeted.

The same can be said for growth rates. It so happens that it is extremely difficult to develop data on the gross real product of individual states. But with the redoubtable help of Dr. Dan Garnick of the Bureau of Economic Analysis of the Department of Commerce, we have available, specially calculated for this occasion, a reasonable first approximation: real earnings by states and regions. Earnings constitute about two thirds of gross national product, although they do not include interest and profits. We have the data to compare two years at early stages of recovery from business recession: 1971 and 1976. Dr. Garnick has, for each state and region, calculated a fraction. The numerator is the proportion of the total rise in U.S. earnings contributed by that region between 1971 and 1976. The denominator is the percentage of U.S. earnings contributed to total U.S. earnings by each region in 1971. Thus, if the fraction is one, it means that the region's earnings had grown in proportion to its 1971 position. A fraction less than one means it fell behind; greater than one, that its earnings grew faster than the national average. I have appended to the version of this talk, released to the press, Dr. Garnick's full table. But its broad meaning will be clear from the following figures. The average fraction for the Northeast between 1971 and 1976 is 0.3; for the industrial Middle West, 0.8; for the Great Plains, 0.9; for the Southeast, 1.5; the Southwest, 2.2; the Rocky Mountain states, 2.1; the Far West, 1.3; Alaska, 9.9; Hawaii, 1.0. Put another way, the average real earnings of the nation grew at an annual rate of 2.4% over these difficult years. But the rate ranged from 0.7% for the Northeast to 5.0% for the Southwest and a vertiginous 17.5% for Alaska.

Differences in regional growth rates are a normal part of the history of large countries. We cannot expect and should not try to achieve uniformity. Each region should not come out to Dr. Garnick's 1.0 -- or the national average growth rate. But it is palpable that the heart of our problem of accelerated growth, as well as a return to full employment, lies in the Northeast and Middle West.

There are those who argue that the relative slowdown in these regions is an inevitable result of natural forces, and they should learn to decline gracefully. I do not share that mood of passive pessimism about the North. For one thing, as the case of Britain illustrates, economic decline is not a graceful process. It is painful, socially contentious, and potentially quite ugly in the political moods and problems it generates. Moreover, I believe it is unnecessary. Surely, the North cannot go on doing what it has been doing if it is to cope with the special pressures of the protracted period of high energy prices we face. Surely, the antiseptic, easy devices of fiscal and monetary policy will not cure the ills of the North nor a bit more federal expenditures. The regathering of momentum in the North will prove to be mainly an exercise in self-help. The North commands both the material and human resources for a great revival, including 55% of the nation's R&D capacity. What is required is a coming together of the public and private sectors around large programs of investment that would, among other things, fully exploit the region's energy resources; modernize its transport and its obsolescent industrial plant. If that happens, then some federal assistance could help substantially. But only those who live in the North can generate the common will and sense of direction to do these things. What the North -- and all of us -- have the right to demand of Washington are policies which would get the nation as a whole back to full employment and rapid growth, by tackling with vigor our energy and other resource problems. Part of that process will prove to be the regathering of momentum and communal initiative in the North.

Conclusion

My theme, then, is simple. In a phrase used by Professor Paul Samuelson in an amiable public discussion we had here in Austin last April, we live in a post-Keynesian era. But we have neither a generally accepted theory nor a policy nor the institutions required for the post-Keynesian era.

This is, evidently, not the moment to present an alternative to Keynesian theory, although I'd be glad to oblige on another occasion.

As for policy, the essence of the problem is this. Keynes perceived correctly that in Europe between the wars and in the United States after 1929 money wages did not decline sufficiently in a period of high unemployment to clear the labor market, as classical economic analysis would suggest. Chronic unemployment became a theoretical possibility as well as an ugly fact. Therefore, Keynes concluded, a return to full employment required direct government stimulus to effective demand through fiscal and monetary policy. The equivalent insight for the next generation is that, for good or ill, governments all over the world are deeply involved in policy towards energy, agriculture, water, raw materials, and the control of air and water pollution.

We are in a period -- the fifth such period in the last two centuries -- when both full employment and the correction of the structural distortions in the world economy require greatly enlarged investment in this array of resource fields. In other such periods, a relatively free price system and private investment flows mainly brought about the necessary shift in the direction of investment. Now governments must play a critical part in bringing about this shift. But, if they are to be effective, they must do so in a setting of intimate, mutually confident public-private collaboration. Governments cannot surrender totally their responsibilities in these fields; but they cannot and should not undertake these massive investment tasks on their own. That is why the regional development banks and the possibility of a revived RFC are of critical importance -- in themselves and as symbols of the direction we shall have to go in the generation ahead.

Once we learn how to deal with these resource problems, I am confident we can master unemployment in our time, create an environment in which serious progress can be made with our problems of poverty, and provide a new job-oriented welfare system. Along the way, we shall find that the problems of energy, water, pollution control, and all the rest are difficult and expensive; but we shall find that they are manageable, and that our destiny is still in our hands, if we face them as a national community. We shall also find, I believe, that in coming to grips with these issues as a nation, the divisions among us -- between business and labor, the public and private sectors, and the regions -- will greatly diminish. And that, indeed, should happen; for it is not only in energy that we confront the "moral equivalent of war."

MEASURES OF CONTRIBUTION AND SHARE OF U.S. GROWTH IN EARNINGS BY REGION AND STATE[17]
(1972 DOLLARS)

	1 EARNINGS 1971	2 EARNINGS 1976	3 GROWTH (2-1) 71 TO 76	4 % OF U.S. GROWTH 71 TO 76	5 % OF U.S. EARNINGS 1971	6 SHARE OF U.S. GROWTH (5/4)	7 Index of Relative Growth 1971-1976 (4/5)
U.S. GROWTH IN TOTAL EARNINGS (000'S OF $)	$699,931,846	$788,631,267	$88,699,421	100.00%	100.00%		
NEW ENGLAND REGION	41,908,250	43,981,888	2,073,638	2.34	5.99	2.56	.39
CONNECTICUT	11,740,370	12,328,442	588,072	.66	1.68	2.55	.39
MAINE	2,724,507	3,194,172	469,665	.53	.39	.74	1.35
MASSACHUSETTS	20,775,608	21,294,673	519,065	.59	2.97	5.03	.19
NEW HAMPSHIRE	2,188,888	2,563,829	374,941	.42	.31	.74	1.35
RHODE ISLAND	3,115,224	3,158,483	43,259	.05	.45	9.00	.11
VERMONT	1,363,653	1,442,289	78,636	.09	.19	2.11	.47
MIDEAST REGION	163,653,064	168,940,589	5,287,525	5.96	23.38	3.92	.25
DELAWARE	2,243,829	2,475,634	231,805	.26	.32	1.23	.81
DIST. OF COLUMBIA	6,553,725	7,132,416	578,691	.65	.94	1.45	.69
MARYLAND	13,280,203	14,926,110	1,645,907	1.86	1.90	1.02	.97
NEW JERSEY	26,714,220	28,243,857	1,529,637	1.72	3.82	2.22	.45
NEW YORK	75,070,220	72,353,568	-2,716,652	-3.06	10.73	-3.51	-.28
PENNSYLVANIA	39,790,867	43,809,003	4,018,136	4.53	5.68	1.25	.79
GREAT LAKES REGION	146,877,874	161,109,745	14,231,871	16.05	20.98	1.31	.76
ILLINOIS	44,077,079	47,864,154	3,787,075	4.27	6.30	1.48	.67
INDIANA	17,742,720	19,819,432	2,076,712	2.34	2.53	1.08	.92
MICHIGAN	33,026,999	36,472,677	3,445,678	3.88	4.72	1.22	.82
OHIO	37,657,865	40,750,944	3,093,079	3.49	5.38	1.54	.64
WISCONSIN	14,373,211	16,202,538	1,829,327	2.06	2.05	1.00	1.00
PLAINS REGION	52,372,609	58,420,449	6,047,840	6.82	7.48	1.10	.91
IOWA	8,512,563	9,876,681	1,364,118	1.54	1.22	.79	1.26
KANSAS	6,781,361	7,937,005	1,155,644	1.30	.97	.75	1.34
MINNESOTA	12,889,831	14,322,000	1,432,169	1.61	1.84	1.14	.87
MISSOURI	15,903,351	16,899,803	996,452	1.12	2.27	2.03	.49
NEBRASKA	4,713,562	5,390,417	676,855	.76	.67	.88	1.13
NORTH DAKOTA	1,800,496	2,111,594	311,098	.35	.26	.74	1.34
SOUTH DAKOTA	1,771,444	1,882,948	111,504	.13	.25	1.92	.52

SOUTHEAST REGION	126,264,830	150,571,555	24,306,725	27.40	18.04	.66	1.51
ALABAMA	8,967,977	10,879,550	1,911,573	2.16	1.28	.59	1.68
ARKANSAS	4,597,072	5,703,164	1,106,092	1.25	.66	.53	1.89
FLORIDA	21,339,845	25,488,966	4,149,121	4.68	3.05	.65	1.53
GEORGIA	14,383,194	16,507,783	2,124,589	2.40	2.05	.85	1.17
KENTUCKY	8,710,357	10,600,230	1,889,873	2.13	1.24	.58	1.71
LOUISIANA	9,709,903	12,125,437	2,415,534	2.72	1.39	.51	1.95
MISSISSIPPI	5,062,416	6,114,987	1,052,571	1.19	.72	.61	1.65
NORTH CAROLINA	15,309,467	17,834,510	2,525,043	2.85	2.19	.77	1.30
SOUTH CAROLINA	7,146,004	8,636,618	1,490,614	1.68	1.02	.61	1.64
TENNESSEE	11,336,242	13,475,160	2,138,918	2.41	1.62	.67	1.48
VIRGINIA	15,002,559	17,474,109	2,471,550	2.79	2.14	.77	1.30
WEST VIRGINIA	4,699,794	5,731,039	1,031,245	1.16	.67	.58	1.73
SOUTHWEST REGION	50,738,526	64,766,767	14,028,241	15.82	7.25	.46	2.18
ARIZONA	6,027,013	7,299,540	1,272,527	1.43	.86	.60	1.66
NEW MEXICO	2,785,402	3,526,958	741,556	.84	.40	.48	2.10
OKLAHOMA	7,117,381	8,632,781	1,515,400	1.71	1.02	.60	1.67
TEXAS	34,808,729	45,307,488	10,498,759	11.84	4.97	.42	2.38
ROCKY MOUNTAIN REGION	16,150,754	20,454,258	4,303,504	4.85	2.31	.48	2.09
COLORADO	7,856,448	9,821,029	1,964,581	2.21	1.12	.51	1.97
IDAHO	2,079,536	2,755,789	676,253	.76	.30	.39	2.53
MONTANA	2,001,625	2,385,539	383,914	.43	.29	.67	1.48
UTAH	3,165,142	3,952,084	786,942	.89	.45	.51	1.97
WYOMING	1,048,003	1,539,817	491,814	.55	.15	.27	3.66
FAR WEST REGION	97,189,519	113,271,094	16,081,575	18.13	13.89	.77	1.30
CALIFORNIA	76,741,887	88,344,842	11,602,955	13.08	10.96	.84	1.19
NEVADA	2,214,076	2,663,157	449,081	.51	.32	.63	1.59
OREGON	6,867,716	8,457,213	1,589,497	1.79	.98	.55	1.82
WASHINGTON	11,365,840	13,805,883	2,440,043	2.75	1.62	.59	1.69
ALASKA	1,552,921	3,478,534	1,925,613	2.17	.22	.10	9.86
HAWAII	3,223,501	3,636,388	412,887	.47	.46	.98	1.02

1/ IMPLICIT PRICE DEFLATORS FOR PERSONAL CONSUMPTION EXPENDITURES

BUREAU OF ECONOMIC ANALYSIS
REGIONAL ECONOMICS INFORMATION SYSTEM

THE WHITE HOUSE
WASHINGTON
November 2, 1977

Bob Lipshutz

The attached was returned in the President's outbox today and is forwarded to you for your information. The signed original has been given to Bob Linder for appropriate handling.

Rick Hutcheson

cc: Bob Linder

RE: E.O.'S ON DEFENSE CHANGES

THE WHITE HOUSE
WASHINGTON

11/2/77

Mr. President:

Brzezinski concurs.

Rick

<u>THREE SIGNATURES REQUESTED</u>

THE WHITE HOUSE

WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
	/	LIPSHUTZ
		MOORE
		POWELL
		WATSON
		McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		GAMMILL

		KRAFT
/		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE WHITE HOUSE

WASHINGTON

October 31, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT LIPSHUTZ RJ

RE: Proposed Executive Orders:
(1) Establishing the Defense Meritorious Service Medal;
(2) Amending the Code of Conduct for Members of the Armed Services of the United States; and
(3) Amending the Manual for Courts-Martial, United States, 1969 (Revised Edition)

The three attached Executive Orders were proposed by the Department of Defense and have been approved by OMB and Justice.

The first order creates the Defense Meritorious Service Medal, the purpose of which is to give the Secretary of Defense a means to recognize superior performance by members of the Armed Forces assigned to the Office of the Secretary of Defense and other joint-service activities.

The second proposed order amends Article V of the Code of Conduct in accordance with the recommendation of the Defense Review Committee for the Code of Conduct convened in 1976. The amendment modifies the information which a prisoner of war is required to give to his captors. Formerly the provision read, "When questioned, should I become a prisoner of war, I am bound to give only name, rank, service number and date of birth." The new provision reads, "...I am required to give name, rank, service number and date of birth." The reason for the change is to provide a more uniform understanding to POW's of their responsibility and to reduce guilt feelings in prisoners who are coerced into giving more than name, rank, service number and date of birth, thereby helping them resist further demands for information.

The third attached order establishes that the senior ranking individual (except for medical officers or chaplains) in a prison camp is the lawful superior of all lower ranking personnel, regardless of branch of service.

We recommend that you sign all three orders.

✓ Approve ______ Disapprove

J

EXECUTIVE ORDER

ESTABLISHING THE DEFENSE MERITORIOUS SERVICE MEDAL

By virtue of the authority vested in me as President of the United States of America, and as Commander in Chief of the Armed Forces, it is hereby ordered as follows:

Section 1. There is hereby established a Defense Meritorious Service Medal, with accompanying ribbons and appurtenances, for award by the Secretary of Defense to any member of the Armed Forces of the United States who has rendered outstanding non-combat meritorious achievement or service while assigned to the Office of the Secretary of Defense, the Organization of the Joint Chiefs of Staff, a specified or unified command, a Defense agency, or other such joint activity as may be designated by the Secretary of Defense.

Sec. 2. The Defense Meritorious Service Medal, with accompanying ribbons and appurtenances, shall be of appropriate design approved by the Secretary of Defense and shall be awarded under such regulations as the Secretary of Defense may prescribe. These regulations shall place the Defense Meritorious Service Medal in an order of precedence after the Medal of Honor, the Distinguished Service Cross, the Defense Distinguished Service Medal, the Distinguished Service Medal, the Silver Star Medal, the Defense Superior Service Medal, the Legion of Merit Medal, and the Bronze Star Medal, but before the Meritorious Service Medal.

Sec. 3. No more than one Defense Meritorious Service Medal shall be awarded to any one person, but for each succeeding outstanding meritorious achievement or service justifying such an award a suitable device to be worn with that medal may be awarded under such regulations as the Secretary of Defense may prescribe.

Sec. 4. The Defense Meritorious Service Medal or device may be awarded posthumously and, when so awarded, may be presented to such representative of the deceased as may be deemed appropriate by the Secretary of Defense.

Jimmy Carter

THE WHITE HOUSE,

EXECUTIVE ORDER

- - - - - - - -

AMENDING THE CODE OF CONDUCT FOR MEMBERS OF THE ARMED FORCES OF THE UNITED STATES

The Code of Conduct has been an established standard of behavior for all members of the Armed Forces of the United States for more than twenty years. It has helped individuals in captivity to sustain their moral and physical strength and to survive extreme torture and abuse. However, experience indicates that certain words of the Code have, on occasion, caused confusion resulting in training divergencies.

NOW, THEREFORE, by virtue of the authority vested in me as President of the United States of America, and as Commander-in-Chief of the Armed Forces of the United States, in order to clarify the meaning of certain words, Article V of the Code of Conduct for Members of the Armed Forces of the United States, attached to and made a part of Executive Order No. 10631 of August 17, 1955, is hereby amended to read as follows:

> "When questioned, should I become a prisoner of war, I am required to give name, rank, service number and date of birth. I will evade answering further questions to the utmost of my ability. I will make no oral or written statements disloyal to my country and its allies or harmful to their cause.".

Jimmy Carter

THE WHITE HOUSE,

EXECUTIVE ORDER

- - - - - - - -

AMENDING THE MANUAL FOR COURTS-MARTIAL,
UNITED STATES, 1969 (REVISED EDITION)

Members of the Armed Forces of the United States who are captured and held prisoner by a hostile armed force are effectively outside the direct operational control of United States military authorities. Recent conflicts involving members of the Armed Forces indicate a need for establishing and maintaining a chain of command among prisoners of war or detained personnel. The senior member of all Services must be provided the necessary command authority over all members of the Armed Forces with whom he is imprisoned or detained. The present wording in the Manual for Courts-Martial should be amended to provide such authority.

NOW, THEREFORE, by virtue of the authority vested in me by the Uniform Code of Military Justice (Chapter 47 of Title 10 of the United States Code) and as President of the United States of America, the Manual for Courts-Martial, United States, 1969 (Revised Edition), prescribed by Executive Order No. 11476 and amended by Executive Order No. 11835, is hereby further amended as follows:

Section 1. The third paragraph within paragraph 168 is amended by striking out the third sentence and inserting the following in place thereof:

"A commissioned officer of one armed force is not '<u>his</u> superior commissioned officer' with respect to a member of another armed force merely because of higher rank. However, a commissioned officer of one armed force is, within the meaning of Article 89, '<u>his</u> superior commissioned officer' with respect to a member of another armed force if duly placed in the chain of command over that person. In addition, when members of more than one armed force are prisoners of war or otherwise detained by a hostile entity so that circumstances prevent resort to the normal chain of command, a commissioned officer of one armed force who is not a medical officer or chaplain is '<u>his</u> superior commissioned officer' with respect to a member of another armed force who is his junior in rank.".

Sec. 2. The first paragraph within paragraph 170<u>a</u> is amended by inserting the following after the second sentence:

"A warrant officer, noncommissioned officer, or petty officer of one armed force who is senior in rank to a member of another armed force is senior to that member under the same circumstances that a commissioned officer of one armed force is the superior commissioned officer of a member of another armed force for the purpose of Article 89 and 90. See 168.".

Sec. 3. The first paragraph within paragraph 171<u>b</u> is amended by inserting the following after "See 138<u>b</u>":

"A member of one armed force who is senior in rank to a member of another armed force is the superior of that member with authority to issue orders which that member has a duty to obey under the same circumstances as a commissioned officer of one armed force is the superior commissioned officer of a member of another armed force for the purposes of Articles 89 and 90. See 168.".

Jimmy Carter

THE WHITE HOUSE,

THE WHITE HOUSE
WASHINGTON
November 2, 1977

Frank Moore

The attached was returned in the President's outbox. It is forwarded to you for your information.

Rick Hutcheson

RECOMMENDED PHONE CALLS TO CONG. COLLINS AND CONG. DIGGS

cc: B. Mitchell

THE PRESIDENT HAS SEEN.

done
J

THE WHITE HOUSE

WASHINGTON

CONGRESSIONAL TELEPHONE CALL

TO: Congresswoman Cardiss Collins (D-Ill-7).

DATE: As soon as possible.

RECOMMENDED BY: Bill Cable, Valerie Pinson. Andy Young

PURPOSE: To congratulate Rep. Collins upon House passage of her resolution denouncing the Government of the Republic of South Africa for recent violations of human rights in that country.

BACKGROUND: On Monday (October 31) the House passed a resolution introduced by Rep. Collins which resolves "that the Congress strongly denounces a series of acts committed by the Govt. of the Rep. of South Africa (the Biko situation and the arrest of a host of political moderates who are opponents to apartheid) which suppress the expression of political thought and violate the rights of the individual and urges the President to take effective measures against the Republic of South Africa in order to register the deep concern of the American people about the continued violation of human rights in that country." This is the first piece of legislation that Rep. Collins has ever sponsored that passed.

TOPICS OF DISCUSSION:

1. Thank Rep. Collins for her initiative in introducing the resolution which was passed so overwhelmingly by the House Oct.31 (347 to 54).

2. The passage of Rep. Collins resolution will, undoubtedly, be the first step in a series of congressional efforts to help stop the problems in South Africa.

DATE OF SUBMISSION: November 1, 1977

Approved by Frank Moore: F.M.

THE PRESIDENT HAS SEEN.

done
J

THE WHITE HOUSE

WASHINGTON

CONGRESSIONAL TELEPHONE CALL

TO: Congressman Charlie Diggs (D-Mich-13).

DATE: As soon as possible.

RECOMMENDED BY: Bill Cable, Valerie Pinson. AH-G yay.

PURPOSE: To congratulate Rep. Diggs upon the passage of Rep. Collins' resolution regarding South Africa and for his aid in that effort as Chairman of the Subcommittee on Africa.

BACKGROUND: See Telephone Call Request to Congresswoman Cardiss Collins.

TOPICS OF DISCUSSION:

1. Thank Rep. Diggs for his help, as Chairman of the Subcommittee on Africa, in passing Rep. Collins' resolution denouncing the Gov't. of the Republic of South Africa for recent violations of human rights in that country.

2. Tell Rep. Diggs that you look to his leadership as the Congress and the Administration continue the efforts in bringing a halt to the problems in South Africa.

DATE OF SUBMISSION: November 1, 1977

Approved by Frank Moore: F.M.

THE WHITE HOUSE
WASHINGTON

November 2, 1977

Stu Eizenstat

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

cc: The Vice President
Frank Moore

RE: SEN. ABOUREZK'S PROPOSED NATIONAL INITIATIVE

THE WHITE HOUSE

WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
	/	MONDALE
		COSTANZA
/		EIZENSTAT
		JORDAN
		LIPSHUTZ
	/	MOORE
		POWELL
		WATSON
		McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		GAMMILL

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE PRESIDENT HAS SEEN.

Stu
J

THE WHITE HOUSE

WASHINGTON

October 26, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
STEVE SIMMONS

SUBJECT: Senator Abourezk's Proposed National Initiative

Background

Senator Abourezk has been seeking Administration support for a constitutional amendment he has proposed which would create an Initiative process at the national level similar to ones now in existence in a number of states. We have had an exchange of letters with him on the amendment and pointed to problems with it. Although according to Hill staff it appears extremely unlikely that the amendment will be reported from either House or Senate Committee, Senate hearings will be held in December (during the adjournment period). The Vice President and we agree that the amendment is a bad idea.

However, Senator Abourezk has asked that if possible, we not flatly oppose the amendment at this time. Unless you disagree, we propose to send the attached final letter to Senator Abourezk on this topic indicating that we continue to find severe problems with the amendment. If the Administration is asked to testify (which would be doubtful in light of the letter) we would then explicitly indicate Administration opposition to the amendment. Frank Moore concurs with this approach.

Please note that the letter is drafted under my signature since some people may consider the Initiative proposal an "open government" concept and there is no need for you to personally oppose it now. Also, the correspondence to date has been between me and Senator Abourezk. Our concerns have been set out at length in earlier letters.

Discussion

In essence, the national Initiative process would allow proposed statutes to be placed on the ballot in federal elections after a certain number of qualified signatures had been gathered on a petition. If a majority of the people casting votes approved the proposed statute, it would have the same force as a law passed by Congress and signed by the President. It could not be repealed nor amended for at least two years after it had been approved, except by a two thirds vote of both Houses of Congress.

It is true that the national Initiative process would probably increase citizen involvement in debating a variety of issues and allow what some may consider a more direct popular role in lawmaking. Senator Abourezk maintains that the initiative has "worked well in 23 states." However, we think the proposed national Initiative is a bad idea and should be opposed for the following reasons:

1. There is no careful, deliberative, legislative consideration of proposed statutory language and its implications.

2. The Initiative strikes at the basic governmental framework established by the Constitution, including the separation of powers.

3. The President's veto power is eliminated for those laws approved by the Initiative.

4. A law passed by the Initiative process cannot be repealed for two years without a two thirds vote of both Houses of Congress, no matter how detrimental the law might be.

5. Laws subject to the Initiative process may well cause inflammatory and ill-informed debate.

6. Since the full text of the proposed law must be circulated with signature petitions and placed on the ballot, they are likely to be simple declarations as opposed to thorough statutory proposals.

7. The Initiative process may well spawn third party candidates basing their candidacies on proposed laws.

8. The Initiative process might be particularly susceptible to well funded special interest groups who want their own special interest enacted.

Decision

_____✓__ Approve sending letter and opposing Initiative in testimony (Recommended)

________ Disapprove sending letter and opposing Initiative in testimony

________ Approve sending letter and opposing Initiative in testimony, but make letter from the President

*We are holding original based upon your decision whether or not to send letter.

THE WHITE HOUSE

WASHINGTON

Dear Senator Abourezk:

I want to thank you for your recent letter in which you answered the points I raised regarding your proposed constitutional amendment to create a national Initiative process. Your thoughtful response illuminates well your arguments on behalf of the amendment.

We will continue to carefully review the pros and cons of a national Initiative. The Justice Department will also be examining this issue. However, I must reiterate that we still find very significant problems with extending the Initiative process to the Federal level.

Thank you again for bringing this important matter to our attention.

Sincerely,

Stu Eizenstat

Stuart E. Eizenstat
Assistant to the President
for Domestic Affairs and Policy

The Honorable James Abourezk
United States Senate
Washington, D.C. 20510

THE WHITE HOUSE
WASHINGTON

November 2, 1977

Bob Lipshutz

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

cc: The Vice President
Frank Moore
Zbig Brzezinski

RE: KOREAN BACK CHANNEL MESSAGES AND RELATED MATTERS

THE WHITE HOUSE

WASHINGTON

Rick – landscaping to Bob L.

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
	✓	MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
✓		LIPSHUTZ
	✓	MOORE
		POWELL
		WATSON
		McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
	✓	BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		GAMMILL

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

November 1, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Bob Lipshutz RJL

SUBJECT: Korean Back Channel Messages and Related Matters

The Secretary of Defense urgently needs a decision on the above matter because of the insistence of Congressman Stratton that he allow him to review these documents. While the matter has been under discussion for a number of weeks, it now has "come to a head" and your decision is needed because of the policy impact and the inability of key persons in the Administration to agree on the same course of action, as noted in the latter part of this memorandum.

Apparently the State Department and the Defense Department have, on a number of occasions, "finessed" the question of Executive Privilege in dealings with Congress and Congressional Committees.

Should that be the decision in this matter, it would involve the following factors.

1. The Defense Department would prepare a summary of the information contained in these messages for all members of the Committee, thereby putting all of the pertinent information in proper context.

2. The messages themselves would be shown only to Chairman Stratton and on the following conditions.

3. The Chairman would be asked to agree that there will be no public disclosure of the fact that the actual messages were shown to him.

4. The Chairman would be permitted to read these messages in the presence of either the Secretary of Defense or his General Counsel, would not be permitted

to take any notes or make any copies; and the Chairman also would be requested to agree that he would make no verbatim reports from the messages either to the Committee, or to the press, or to anyone else.

5. The Chairman would be asked to agree that this would end his inquiry about the messages and particularly agree that no further efforts would be made to try and obtain the actual messages. This would not preclude any clarification which might be requested by him or other members of the Committee.

6. This disclosure to the Chairman would be with the explicit written statement not only outlining the preceding conditions, but also clearly reserving the right of Executive Privilege should that have to be invoked under any circumstances in the future as to these same messages.

The Secretary of Defense and his General Counsel are most anxious to proceed with this matter in the foregoing manner.

As to the contents of the messages, while they might be somewhat embarrassing, particularly to the senders because of some of the language used, there apparently is no question of national security or intelligence disclosure involved.

The foregoing course of action is recommended strongly by the Secretary of Defense. The Vice President, the Attorney General, and I concur in this recommendation. Dr. Brzezinski is opposed to this recommendation because of the precedent setting effect on Presidential power.

Time is of the essence, in the opinion of the Secretary of Defense, because of the pendency of this matter and a number of other Department of Defense matters with the Sub-committee of which Representative Stratton is the Chairman.

✓ Approve ________ Disapprove

Be absolutely sure not to deviate in any way from above terms with Stratton - Be tough & firm

JC

THE WHITE HOUSE
WASHINGTON
November 1, 1977

Hamilton Jordan
Frank Moore
Zbig Brzezinski

The attached is forwarded to you for your information. If you do wish to comment, please call (x7052) by 9:30 A.M. Wednesday, November 2, 1977.

Rick Hutcheson

KOREAN BACK CHANNEL MESSAGES
AND RELATED MATTERS

THE WHITE HOUSE
WASHINGTON

	FOR STAFFING
/	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
/	LOG IN/TO PRESIDENT ~~TODAY~~
	IMMEDIATE TURNAROUND Tirow

Call by 9:30 [illegible] Ned if you wish time to comment.

ACTION	FYI	
		MONDALE
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	/	JORDAN
		LIPSHUTZ
	/	MOORE
		POWELL
		WATSON
		LANCE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

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		HARDEN
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

Rich:

THE WHITE HOUSE
WASHINGTON

Nov. 1, 1997

If possible,
please try to
get a response
to the attached
by Wednesday A.M.

BJ

ljs

THE WHITE HOUSE
WASHINGTON
November 1, 1977

Hamilton Jordan
Frank Moore
Zbig Brzezinski

The attached is forwarded to you for your information. If you do wish to comment, please call (x7052) by 9:30 A.M. Wednesday, November 2, 1977.

Rick Hutcheson

KOREAN BACK CHANNEL MESSAGES AND RELATED MATTERS

Congressional Liaison:

Any offer to Stratton should be balanced against the fact that Don Fraser and the Ethics Committee are conducting in-depth Korea investigations. If the info is given to one, it will probably be requested by others. We should establish a consistent position that we can stick with in all three instances.

THE PRESIDENT HAS SEEN.

THE V. P. HAS SEEN

For: President-Elect Jimmy Carter

FROM: Senator Abe Ribicoff

Personal and Private Background Notes on the Middle East For President-Elect Carter, Vice President-Elect Mondale, and Secretary of State-Designate Vance Only.

The following are some summary notes on the Middle East drawn from discussions in Israel and Egypt.

ISRAEL

Political/Economic Issues

This is a difficult period in Israel. The economy is unhealthy and is burdened by a high rate of inflation and heavy defense costs. Political unity is at a low ebb with strikes prevalent and political leaders already looking toward the elections a year from now. Nonetheless, Israel is very strong militarily and has bargaining chips for a settlement. Prime Minister Rabin informed the delegation that 1977 would certainly bring a peace initiative, and Israel was ready to cooperate. Rabin's description of the Israeli approach to peace had three main points:

(A) The Israelis hope to move to peace through negotiations;

(B) If real peace cannot be achieved, Israel would like to reach intermediate goals by taking some steps toward peace;

(C) Israel would not discuss peace with preconditions.

The current Israeli leadership is reticent to move quickly towards serious negotiations but probably fears the domestic political ramifications of not doing so. Prime Minister Rabin said that he looked to peace negotiations to bring an end to the state of war "with all its legal and practical implications" - meaning normal diplomatic recognition, treaties, and territorial settlements. Israeli reluctance to move quickly towards a settlement was reflected in the tenor of our talks. Rabin warned against creating expectations which could bring an outbreak of war. Moreover, he clouded the essential (such as territory and the Palestinians) by adding peripheral points (such as the necessity for open boundaries and free movement between Israel and her neighbors). News accounts after our return to the United States suggested that the Israeli Government was uncomfortable with the "peace initiative" thrust of our delegation.

Although there is a strong approach-avoidance in Israel to taking a long-term perspective to a peace agreement, there are reasons to be optimistic of progress. One is that Israel cannot afford to appear opposed to a serious Arab peace initiative -- and it looks like the Egyptians and moderates are serious now. Secondly, Rabin is in political trouble and would have an extremely difficult time running for re-election on domestic issues. Since he is threatened by the hawks (both Peres and Likud), there is room for him to gain the higher ground by moving toward a peace settlement. Third, the combination of a favorable climate among the Arab moderates and a serious initiative by the Carter administration would leave Rabin in the position of having to be positive and creative in approaching negotiations. His call for a Helsinki-type conference on the Middle East in response to what he called "...some voices in the Middle East -- communicated through the media and by visitors to a certain Arab capital..." reinforce the point that Rabin is taking the present momentum seriously.

Rabin has described what he considers the lessons learned from the Helsinki conference. The theme must be dialogue, detente, and coexistence, not the threat of war. The initiative must come from the regional parties to the dispute, with the great powers only offering guarantees later rather than trying to impose a solution. And cultural, trade, and human cooperation need to be added to the borders and territories issues.

Almost as important as substance is the question of timing. Rabin told Joseph Kraft that Sadat's call for negotiations is "...part of a propaganda snow job designed to impress inexperienced American legislators and put pressure on President-elect Carter to plunge into talks before he is well prepared." Rabin thinks it will be March or April before the U.S. sorts out the Middle East, after which Rabin would come to Washington and then approach the Arabs. I think that timetable is not bad -- it shows that Rabin has already planned to put negotiations well in progress before his elections, and that he is assuming that Carter will have the Middle East sorted out by springtime. Things could be much worse. Three possible points for President Carter in this regard are the following:

1. Since Secretary of State-Designate Vance knows the Middle East, an early initiative is quite possible. There would be merit in raising this with the Israelis well before the Labor Party convention at the end of February.

2. Although the United States will be the key to a settlement, it need not be out front right at the start. Vance could recognize Rabin's request for the "regional parties" to take the initiative by telling Rabin that they can take the first move by agreeing to go to Geneva without preconditions to meet with an Arab delegation.

3. However, all parties basically rely only on the United States to work out the formula.

Nuclear Issues

Israel has considerable need for more energy in future years and is willing to accept serious safeguard controls. The Israelis are cynical about the effectiveness of the IAEA, especially since the PLO has been granted observer status. But Israel is willing to accede to whatever reasonable controls the United States proposes. This cooperative attitude is understandable both in light of the benefits of nuclear power and because Israel has separated the obtention of atomic weapons from domestic, civil uses of power. The delegation was not permitted to visit the Dimona nuclear research facility and has no way of knowing whether Israel has nuclear weapons. The decision as to approve or disapprove sale of a nuclear reactor will have to be made recognizing two important points: Israel may already have some nuclear bombs, and the sale of the proposed reactor would be isolated from and not support that fact of life. It appears that most members of the delegation favor licensing a strongly safe-guarded reactor.

EGYPT

Political and Economic Issues

The candid and constructive meetings with President Sadat and Foreign Minister Fahmy underscored the importance to Egypt of ties with the United States after a dramatic break with the Soviet Union. As in Israel, the key role of the United States in the peace process was stressed. Sadat and Fahmy said that never have political events been so ripe in the Arab world for peace negotiations. The Egyptians think that all interested parties -- Syria, Jordan, Egypt, and the PLO -- are ready to go to Geneva to discuss peace. There seemed to be willingness to blur the position of the PLO as a government in exile, to consider it as part of an overall Arab negotiating group, and to eliminate extremists. Sadat and Fahmy said that no preconditions are necessary for negotiations to restore territories, to end belligerency, in respect of the PLO, Jerusalem, or for the future of conventional arms and nuclear weapons in the area. Both took the position that Egypt and moderate Arab states will meet without preconditions, but that all of these issues would have to be negotiated thoroughly at Geneva. For the first time the Egyptians are willing to recognize the right of Israel to exist as an independent, viable, and secure Jewish state.

It is clear that no Arab leader could sign an agreement with Israel unless there is a political settlement regarding the Palestinians. The delegation report will review the presently weakened state of the PLO and its implications for a settlement. The PLO represents a threat to the Arab countries as much as to Israel.

President Sadat is the only Arab President who has said that he is prepared to sign a peace agreement (not a treaty). Sadat has no objections to giving Israel any kind of security guarantees it wants: United Nations, American, or other, Sadat asks that the same security guarantees be given to Egypt.

Egypt recognizes the need to press on with development priorities. There will be 75 million Egyptians in the year 2,000. The Government has invited international investment and reorganized its administrative structure to advance economic development. Foreign Minister Fahmy noted that a poor country such as Egypt must make serious efforts to develop; the state of no war, no peace retards this important work.

Without question Sadat is a central force in the Arab world. His replacement by another Arab leader would be a real blow to the prospects for peace. Sadat's present working relationships with Syria and Saudi Arabia present a potentially effective combination.

In weighing the role of Egypt in peace talks, the following points may be useful:

1. Although President Sadat has had a close and personal relationship with President Ford and Secretary Kissinger, he appeared ready to adjust and carry on with the new administration. Some use of Kissinger -- at the very minimum assurances to Sadat and Fahmy that Vance would back them up and continue the close ties -- is essential given the nature of personal trust in the Middle East.

2. Fahmy was bitter over President Ford's sale of cluster bombs and other equipment in the closing days of the election, so President-elect Carter is not stepping into a situation of unbounded affection for the previous administration.

3. The political strength of Sadat is a prime asset for peace talks, but his economic difficulties and personal health suggest that we cannot count on being in this paramount position for years to come.

4. The PLO is weaker now than it has ever been. The Palestinians after their experience in Lebanon will not be able to press their demands as forcefully as they have.

5. The overall combination of Saudi Arabia, Syria, Egypt, the PLO, and possibly Jordan represents one of those rare moments when the moderates are in the right places and disposed to talk peace.

6. On December 2nd the Egyptians submitted a draft resolution to the General Assembly asking the Secretary General "to resume contacts with the parties to the conflict" in preparation for convening the Geneva conference and ordering a report by March 1st. There was no mention of the PLO. This resolution was submitted with a second, more traditional and strident resolution which would obviously have to be opposed by the United States. Egyptian diplomats confirmed that their strategy was to offer a sufficiently moderate statement to gain American backing. The importance of all this is that the Egyptians are following through on the pledge made public through our delegation to go to Geneva for discussions without preconditions.

Nuclear Issues

Egypt presented convincing arguments for buying a nuclear reactor. A meeting of the Minister of State for scientific research and the Minister of Electricity reviewed Egypt's development plans. The Government has prepared a comprehensive briefing paper on the need for nuclear power generation in Egypt. The Egyptians agreed to complete safeguards for the proposed plant, offered to place all facilities in Egypt under IAEA safeguards, and in response to a question stated that Egypt had no interest in reprocessing license under these conditions.

THE WHITE HOUSE
WASHINGTON

November 2, 1977

Frank Moore

The attached was returned in the President's outbox. It is forwarded to you for your information.

Rick Hutcheson

RE: CALL TO SEN. MUSKIE

THE WHITE HOUSE
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
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		WATSON
		McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
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		GAMMILL

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		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE PRESIDENT HAS SEEN.

done
J

THE WHITE HOUSE

WASHINGTON

CONGRESSIONAL TELEPHONE CALL

TO:	Senator Ed Muskie
DATE:	November 1 or 2
RECOMMENDED BY:	F.M. Frank Moore/Dan Tate DT
PURPOSE:	To wish him a speedy recovery.
BACKGROUND:	The Senator is in Bethesda Naval Hospital having diagnostic tests for the severe back pains he is having. Within the past five months, he has suffered several times. The Senator's direct telephone number is 295-0873.

Date of submission: November 1, 1977

THE PRESIDENT HAS SEEN.

C

THE WHITE HOUSE

WASHINGTON

November 2, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE

Relative to the Federal Reserve Board Chairman coterminous provision, the House sent the bill to the Senate with the Maddix amendment. In order to obtain Senate action on the bill, the Senate agreed to Senator Brooke's demand that this provision be removed from the bill.

The bill is now being sent back to the House without the coterminous provision.

If the House sends the bill back to the Senate with this provision, Senator Brooke's objection will hold and the Senate will not act on the bill.

Chairman Reuss has instructed his appropriate subcommittee staff to begin work on a separate bill for introduction early in the next session.

We will work closely with Senator Proxmire to ensure that we avoid a parlimentary dispute in the Senate.

THE WHITE HOUSE
WASHINGTON

Mr. President:

I'm sure you'll recall the frenetic pace of activity with Congress this past July.

As it is the month just prior to their August recess, I don't think we should schedule you out of the country at that time.

I would suggest that Ambassador Owen explore the possiblity of mid to late August as a preferable alternative.

TK TK

THE WHITE HOUSE
WASHINGTON

November 2, 1977

Stu Eizenstat

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

cc: The Vice President
Hamilton Jordan
Frank Moore
Jack Watson
Jim McIntyre

RE: SOCIAL SECURITY EARNINGS LIMITATION

THE WHITE HOUSE

WASHINGTON

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
	✓	MONDALE
		COSTANZA
✓		EIZENSTAT
	✓	JORDAN
		LIPSHUTZ
	✓	MOORE
		POWELL
	✓	WATSON
	✓	McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

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		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE PRESIDENT HAS SEEN.

Stu
J

THE WHITE HOUSE

WASHINGTON

November 2, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Social Security Earnings Limitation

Following yesterday's meeting (and completion of an HEW analysis of the Senate bill) I can report the following:

Comparison of House and Senate Committee Bills

Earnings limit under existing law:

$3240 indexed, applies to retirees, survivors and dependents.

House Bill

Retains existing law for survivors and dependents and retirees and survivors aged 62-65. For retirees over age 65 only, lifts the ceiling as follows:

		Cost* (billions)
1978 --	$4,000	$0.3
1979 --	$4,500	$0.5
1980 --	$5,000	$0.6
1981 --	$5,500	$0.6
1982 --	no limit	$3.4
1983 --	no limit	$3.7
1984 --	no limit	$3.8
1985 --	no limit	$3.9

Senate Bill

Raises the ceiling for survivors and dependents and retirees aged 62-65 as well as for retirees over age 65 as follows:

*Includes no allowance for increased work participation.

		Cost* (billions)
1978 --	$4,500	$ .8
1979 --	$6,000	$2.0
1980 --	indexed	$2.4
1981 --	indexed	$2.5
1982 --	indexed	$2.6
1983 --	indexed	$2.7
1984 --	indexed	$2.8
1985 --	indexed	$2.9

Analysis

The greater cost of the Senate bill in the early years is caused by the inclusion of survivors, dependents and retirees aged 62-65 under the liberalized ceiling, a recent change in the Committee bill. This probably could be corrected in conference, making the early year costs resemble those under the House bill and further reducing out-year costs.

Recommended Strategy

Bob Ball, Social Security Commissioner Cardwell and Dan Tate have been down at the Senate all morning. We jointly recommend the following:

(1) Support the Senate Committee bill in the Senate. It will be tough to beat back an effort to lift the ceiling altogether, and at this point the Committee bill is the best we can do.

(2) In conference, there will be a good deal of flexibility. We would work hard for the House schedule, ending in 1981 (preserving $5500 without indexing as a permanent ceiling). This is close to the Senate Committee bill modified to exclude survivors, dependents and retirees aged 62-65 from the liberalized ceiling.

I have also suggested trying to add an amendment in the Senate calling for a study and report next year on the real costs, distribution among income classes, and unemployment and inflation impact of liberalizing the retirement test.

*Includes no allowance for increased work participation.

Such a provision might help us come back next year or in 1979 should further corrections be needed.

NOTE: Senator Allen, and possibly Senators Goldwater and Dole, are considering a filibuster, which could put final Senate action off until next year.

✓ Agree

_______ Other

_______ See me

The less, the better

JC

THE WHITE HOUSE
WASHINGTON
November 2, 1977

Stu Eizenstat

The attached was returned in the President's outbox. It is forwarded to you for your information.

Rick Hutcheson

RE: "THE GREAT STAGFLATION SWAMP" by A.M. Okun - Address to Economic Club of Chicago on 10/6/77

THE WHITE HOUSE

WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
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		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE PRESIDENT HAS SEEN.

Stu info J

Send to Pres

Excellent

The Great Stagflation Swamp
by
Arthur M. Okun
Senior Fellow, Brookings Institution*

Address to

The Economic Club of Chicago

8:00 P.M. - October 6, 1977

I classify my after-dinner speeches as either indigestion talks or dessert talks. I warn you in advance that this is an indigestion talk. Actually, I much prefer spreading cheer than gloom; and I can be honestly cheerful about the short-term outlook. The slowdown that the economy has been experiencing is probably no more than a slight dent in our growth curve. Consumer spending got ahead of itself during the early months of this year, and it has been marking time more recently; businesses have reacted by slowing the buildup of their inventories. Meanwhile, the evidence on business spending for fixed investment has brightened considerably; capital spending is now firmly aboard the recovery bandwagon. In my judgment, the expansion still has a good deal of vigor and a substantial life-expectancy.

I expect the Carter administration to unveil a program of tax reform and tax reduction that will, on balance, buoy the expectations of investors and consumers in the short run and their incentives and purchasing power in the longer run. In the closing months of 1977, and during the first half of 1978, I expect some renewed reduction in unemployment and a stronger pattern of business activity.

---

*The views expressed are my own and are not necessarily those of the officers, trustees, or other staff members of The Brookings Institution.

If I spelled out that short-term story in detail for my address tonight, I might even persuade you and send you home happier. But I could do that only by ducking the longer-term outlook, which I regard as distinctly less favorable. The big issue -- the $2 trillion question -- is whether we are now travelling a road to sustainable prosperity accompanied by reasonable stability of the price level. In my judgment, the current strategy of economic policy probably does not lead to a happy ending. And that is why I believe we should not rely on simply more of that same strategy. As I see it, my message is a call for action rather than a forecast of gloom. I have some proposed remedies for the ills, and I will discuss them in detail. But I must warn you that the medicines are not pleasant-tasting, and that they are unconventional and unproven. I hope that my remarks will be thought-provoking and challenging; but, after this initial full disclosure, I shall not be surprised if some of you head for the exits.

An Overview of Problems and Prospects

In 1977, the United States will record a higher unemployment rate and a higher inflation rate than was experienced in any year between 1952 and 1972. We have not licked either of these two major problems; indeed, they have become intertwined and combined in a way that is historically unprecedented, and, by the verdict of many economic textbooks, theoretically impossible. This nation has had serious inflation problems before; it has had prolonged periods of excess capacity and idle manpower before; but it has never previously faced a serious inflation problem after a prolonged period of slack.

The co-existence of stagnation and inflation or, as it has been dubbed, "stagflation," is a new problem. Yet we are dealing with it with old policies that are unlikely to solve it. The Carter administration -- in this respect, like the Ford administration -- is trying through traditional fiscal-monetary measures, to attain both a sustained gradual recovery to full prosperity and a sustained gradual slowdown of inflation.

That strategy is not succeeding. The modest recovery targets have been attained reasonably well over the past 2½ years; the economic expansion has been a rather typical, standard-sized advance. But because the recession that preceded it was double-sized, it has brought us only half-way back to prosperity. Thus, we have paid heavily to keep our recovery moderate, and we have no relief from inflation during the expansion to show for these efforts.

The basic inflation rate has been stuck at 6 percent since the spring of 1975. Nor is there any basis for confidence that relief is forthcoming. Indeed, in my judgment, the inflation rate is more likely to accelerate than decelerate between now and 1979, even with a continuation of a slowly recovering economy. And, once it becomes undeniable that the gradualist anti-inflation strategy has failed, I fear that monetary and fiscal policy will be tightened anew to restrain the growth of the economy, thereby courting the next recession.

In my view, a serious effort to deal with inflation and slack simultaneously must go beyond traditional fiscal-monetary policies. It must invoke specific measures to hold down prices and costs in both the private and public sectors. It must break the wage-price spiral that has so firmly and stubbornly gripped the system. I believe that a number of techniques in pursuit of those objectives deserve serious consideration. Let me state emphatically that the worthy candidates do not include a return to price-wage controls, such as the Nixon administration conducted in 1971-73.

Getting Stuck in the Swamp

As an autobiographical obligation, I must record that the most recent unhappy era of our economic history began late in 1965, while I served as an adviser to President Johnson. That is when the critical decisions were made to finance the Vietnam military build-up in an inappropriate inflationary manner. But the historical record will not support any "original-sin" explanation of inflation that would attribute our ills of a dozen years to that mistake. Every wartime period in the U.S. history has been marked by a severe inflation; indeed, the Vietnam episode was the least severe. But the end of every previous war was marked by the end of inflation.

The unique experience of the seventies is that the end of the war was associated with an intensification of inflation. The double-digit inflation of 1973-74 was the product of many new mistakes and misfortunes: excessive monetary and fiscal stimulus in 1972, the devaluation of the dollar, the mismanagement of U.S. grain supplies, and the OPEC shock to energy prices.

Responding to that rip-roaring inflation, the makers of monetary and fiscal policy adopted extremely restrictive measures that brought on the most severe recession since the late thirties. That recession promptly cut the inflation rate to about 6 percent by the middle of 1975. But there we have been ever since, despite massive excess supplies of idle people, machines, and plants. If our economic institutions responded currently to a slump as they did in 1922 or 1938 or 1949, the recession and prolonged slack would not only have stopped inflation in its tracks but created a wave of falling prices.

In fact, the nature of price- and wage-making has been transformed in the modern era. We live in a world dominated by cost-oriented prices and equity-oriented wages. The standard textbook view of prices adjusting promptly to equate supply and demand applies only to that small sector of the U.S. economy in which products are traded in organized auction markets. And there it works beautifully -- the prices of sensitive industrial raw materials fell by 15 percent between May 1974 and March 1975.

Elsewhere, however, prices are set by sellers whose principal focus is on maintaining customers and market-share for the long run. The pricing policies designed to treat customers reasonably and maintain their loyalty in good times and bad times rely heavily on marking up some standard measure of costs. For most products, prices do not rise faster than standard costs during booms nor do they rise less rapidly than costs during slumps.

Similarly, the long-term interest of skilled workers and employers in maintaining their relationships is the key to wage decisions in both union and non-union situations. The U.S. labor market does not resemble the Marxist model in which employers point to a long line of applicants ("the reserve army of unemployed") and tell their current workers to take a wage cut or find themselves replaced. Employers have investments in a trained, reliable, and loyal work-force. They know that, if they curbed wages stringently in a slump, they would pay heavily for that strategy with swollen quit rates during the next period of prosperity. In a few areas, where jobs have high turnover and thus employers and employees have little stake in lasting relationships, wages do respond sensitively to the level of unemployment. But, in most areas, personnel policies are sensibly geared to the long-run. Workers seek and generally obtain equitable treatment; and the basic test of equity is that their pay is raised in line with the pay increases of other workers in similar situations. Such a strategy introduces inertia in the rate of wage increase; it creates a pattern of wages following wages.

The customer and career relationships that desensitize prices and wages from the short-run pressure of excess supplies and demands have a genuine social function. They are not creations of evil monopolies but rather adaptations to a complex, interdependent economy in which customers and suppliers, workers and employers benefit greatly from ongoing relationships. In general, the persistence of inflation is not a tale of villainy. By any standard, and by comparison with other industrial countries, American unions have been remarkably self-restrained in recent years. Business, meanwhile, has kept its markups below levels that would be justified by the current cost of capital.

In combination, business and labor have been raising prices about 6 percent a year and increasing hourly compensation (wages, private fringes, and employers' payroll tax costs) by about 8 percent a year. The 8-and-6 combination allows a typical margin of real wage gains in line with the normal trend of productivity. Precisely for that reason, it becomes self-perpetuating. New wage decisions are made against the background of 8-percent advances in other wages and 6-percent increases in prices. And so they tend to center on 8 percent. Then, with hourly labor costs rising by 8 percent, businesses find their labor costs per unit of output up about 6 percent, and so their prices continue to rise by 6 percent.

There is no handle on either the wage side or the price side by which we can pull ourselves out of this stagflation swamp. Nor can any single industry or union provide a handle, except by making an unreasonable sacrifice of its own self-interest. It must do what everybody else is doing in order to protect itself. Analogously, if all the spectators at a parade are standing on tiptoe in an effort to get a better view, no individual can afford to get off his uncomfortable tiptoe stance. Ending the discomfort requires a collective decision.

As a qualification, let me note that my sympathy does not extend to the latest fashion in the wage-price spiral, whereby it is turning into a wage-price-protectionist spiral. In this new variant, a big wage hike is followed by a major price increase and then by a joint pilgrimage of business and labor executives to Washington to demand that the government stop foreign sellers from increasing their share of the American market. Fortunately, the Carter administration has generally resisted such unreasonable demands, instead insisting that business and labor face up to the consequences of their own actions on sales volume and employment.

Production and Jobs

Because prices and wages respond only a little to changes in total spending, production and employment respond a lot. And that is the fundamental limitation of fiscal and monetary restraints as a means of curbing inflation. Those policies clearly can put the lid on total spending for goods and services. The holddown in total spending is then split between a cutback in production and a slowing of inflation. But that "split" is the result of price and wage determination; it is not controlled by Washington. We learned -- or should have learned -- in the past three years that the split is extremely unfavorable. The reaction to weaker markets is loaded with layoffs, no-help-wanted signs, cutbacks of production schedules, and slashes in capital budgets. It is, at most, sprinkled with holddowns in prices and wages. To save one point on the basic inflation rate through policies that restrain total spending, we lose more than 5 points -- easily $100 billion -- of our annual real GNP.

The recession and slack of 1974-77 have extracted a toll of $500 billion in lost production of capital goods and consumer goods that could have added to our productivity and our standard of living. That cost should be clearly recognized, although it must be equally recognized that there was, and is, no toll-free route of escape from our problems. In fact, the toll keeps mounting. After thirty months of economic expansion, we have moved only about half the distance from the depths of the recession to a reasonable and feasible level of prosperity or full employment. Serious statistical studies designed to estimate the unemployment rate associated with reasonably balanced -- neither slack nor tight -- labor markets converge on a range between 5 and 5½ percent. They demonstrate that, with today's structure of labor markets, full employment certainly cannot be defined as a 4-percent unemployment rate. But neither can it be pegged anywhere near our current 7.1 percent. Since unemployment has come down from 9.0 percent at the worst of the recession to 7.1 percent, we are about half-way to a reasonable cyclical target in the zone of 5.0 to 5.5 percent.

The excess of nearly 2 percentage points in the unemployment rate is not a structural phenomenon; it is not concentrated in "unemployables," secondary workers, or groups especially affected by government benefit programs. It is instructive to compare the unemployment rates of eminently employable groups today with their 1973-74 average:*

	August 1977	1973-74 Average
	(percent)	
Married men	3.5	2.5
Craftsmen	5.5	4.0
Factory workers	7.0	5.0
"Job losers"	3.4	2.1
	(weeks)	
Average duration	13.5	9.8

*In 1973, when the overall unemployment rate was 4.9 percent, labor markets seemed a bit tight, although they contributed very little to the upsurge in inflation. In 1974, at a 5.6 overall rate, they seemed a bit weak on average.

Unemployment remains high because production has not grown enough to generate the jobs required to get us back to prosperity. The behavior of the unemployment rate in recent years poses no mystery. Indeed, it has moved remarkably true to form in relation to the growth of production. Between 1973 and 1977, our annual growth rate is averaging 2 percent, and such a sub-standard growth performance entails a much increased rate of unemployment. Economists can disagree about whether the nation's "potential growth rate" -- the rate of growth of real GNP that maintains a constant unemployment rate -- is as low as 3.3 percent or as high as 4 percent, but it surely is not 2 percent. If I use my favorite number, 3-3/4 percent, for the potential growth rate, the 2-percent average actual growth rate since 1973 would be expected to raise the unemployment rate by 2.3 percentage points, in line with a rule-of-thumb formula that I developed in 1961. That would point to an unemployment rate a little above 7 percent currently, and that is where we are.

The potential growth rate of the economy is influenced by trends in productivity and in labor-force participation. In the seventies, a rising fraction of women and young people have chosen to enter the labor force. That increase in "work ethic" permits the economy to enjoy greater growth without encountering tight labor markets. Indeed, in its absence, the rather disappointing trend in productivity would have significantly lowered our trend of potential growth. To be sure, if women and teenagers stopped hunting for jobs and went back to their knitting and ball-playing respectively, our unemployment figures would be lower. But our labor markets would be tighter, and the potential of the economy would be reduced. The increased labor-force participation of these workers is correctly viewed as an opportunity and not a burden.

At the level required to bring the unemployment rate down to the middle of the 5.0-to-5.5 zone, our real GNP would be about $100 billion -- or 5½ percent -- above its present level. The evidence suggests that our plant capacity could accommodate that extra output without strain, so long as it was broadly spread across sectors. Such a judgment must rest on estimates of operating rates, which are admittedly imperfect. But they are not likely to be seriously biased, either upward or downward. The estimate of capacity may inappropriately include some outmoded facilities, but it is just as likely to omit some rehabilitated facilities.

In short, idle resources and sacrificed output continue to represent an enormous national extravagance. Economists ought to be devoting more of their efforts and ingenuity to correcting that waste and less to talking it away or defining it out of existence.

The Costs of Inflation

Just as 7 percent unemployment is not full employment, so 6 percent inflation is not price stability. For the past two years, inflation has been reasonably steady and relatively well-predicted, and yet it remains domestic public enemy #1 in the view of a majority of the American people. I find that entirely understandable. In a system that rests on the dollar as a yardstick, a score-keeping device, and a basis for planning and budgeting, the instability of the price level adds enormously to uncertainty and risk.

In our institutional environment, most people cannot hedge their wealth or their incomes against inflation. The single-family home has been the only major asset that has served as an effective inflation-hedge during the past decade; and it is obviously not a feasible outlet for gradual maintained flows of saving. Common stocks have been miserable failures as inflation hedges; savings deposits and life insurance offer no effective inflation protection. A small minority of Americans have obtained cost-of-living escalators that protect their real incomes effectively from inflation. But their escalated wages are passed through into prices and thereby destabilize the real incomes of the majority whose earnings are not indexed. Escalators are a means of passing the buck among groups within our society, not of protecting the buck for the whole of society.

Recent professional discussions of inflation-adjusted accounting and inflation-adjusted taxing underline the importance of the dollar yardstick in our institutional structure. Efforts to develop a "real" yardstick as a substitute for the dollar founder on legitimate controversy and unavoidable complexity. Understandably, businessmen typically rely on the dollar. Most continue to set their prices on the basis of known actual costs rather than hypothetical replacement costs for both inventories and capital facilities. And FIFO "pricers" recognize that FIFO accounting tells the true story of their profits, even though it costs extra taxes. But they also know that the dollar is not reliable in an inflationary world. Thus, the gap between actual, historical costs of old plant and equipment and current or predicted costs of new facilities creates agonies in capital budgeting and weakens investment.

This country has not adapted, and is not adapting, to 6-percent inflation. The tolerable rate of inflation in this society is considerably below 6 percent. In the early sixties, 1½ percent inflation was generally regarded as tolerable; in the early seventies, a 3-percent rate was widely accepted. If we were now to label 6 percent inflation as acceptable, who could believe that such a decision was the final turn of the ratchet? This country needs an effort to restore the reliability of the dollar, not a set of innovations to replace it; it needs an effort to curb inflation, not a program to learn to live with it.

With current prospects and policies, the basic inflation rate is not likely to drop below 6 percent during the remainder of the present economic expansion. To be sure, the inflation rate fluctuates from quarter to quarter, and minor wiggles and jiggles tend to generate vain hopes and groundless fears. Currently, declines in farm prices and a downward blip in mortgage interest rates are generating favorable news. That is genuinely reassuring in proving that the jump in inflation to an 8 percent rate earlier this year was transitory. But the latest figures do not signify any fundamental improvement that is likely to be sustained.

The inflation outlook is a mixed bag. It has favorable elements: the weakness of farm and metal prices, and indeed of world commodity prices in general; the light calendar of union wage-bargaining in 1978. But it has unfavorable components as well. Nonunion wages, which have risen much less rapidly than union wages in the last few years, must be expected to accelerate to some degree. A substantial segment of industry will try to widen markups and profit-margins, particularly to narrow the gap between the historical and the current costs of capital facilities. Long before the economy reaches a state of excess demand, a return to healthier markets would embolden many businessmen to raise their markups.

Finally, our chance for some net relief from inflation has been reduced by a new wave of legislative actions that add to particular costs and prices. Employers' hourly labor costs will be raised by hikes in payroll taxes in January for both social security and unemployment insurance. Further increases in payroll taxes are contemplated to finance proposed reforms of social security. The minimum wage seems slated to move up from $2.30 to $2.65 next year. The first installment of the well-head tax on crude oil is scheduled to take effect in 1978. Government farm programs have re-instituted acreage cutbacks --

deliberately reducing the productivity of our agriculture. Many of these cost-raising measures have some justification. No one of them spells the difference between price stability and rampant inflation. But, in combination, they may well add 1½ percent to the inflation rate by late 1978.

This wave of cost-raising measures deserves far more attention and scrutiny than it has received. Reliance on such measures is nothing new, but their total magnitude does set a new record. The Congress may have been tempted to load costs on the budgets of consumers and employers in order to avoid loading more onto the federal budget. In several of these areas, the President initially advanced proposals that were admirably restrained, but then compromised in the face of strong political opposition. (When some of the press welcomes such instances as evidence of the President's education in the ways of Washington, I cannot share the enthusiasm.) Meanwhile, the financial and business community has been so preoccupied with Thursday-afternoon reports on M_1 and federal deficit reestimates that it has missed the big new inflationary game in town.

All things considered, my best guess is that, between now and 1979, inflation is more likely to accelerate than to decelerate -- and not because of overly rapid growth or excess demand.

With that inflation forecast, a good growth performance in 1979 and 1980 seems unlikely. Bad news on inflation would turn into bad news for propsperity in several ways. First, it would mean higher interest rates. Short-term interest rates cannot be responsibly held below the inflation rate indefinitely. To me, an interest rate on Treasury bills above 7 percent would sound an alarm; it would generate disintermediation and create a mortgage famine that would starve homebuilding. Second, in an environment of stubborn and intensifying inflation, the makers of fiscal policy would be understandably reluctant to provide any stimulus to the investor or consumer that may be needed to sustain growth. Third, bad news on inflation would heighten consumer anxiety and once again weaken discretionary household spending.

The connection between worsening inflation and a subsequent recession is not magic or automatic, but it is genuinely built into the attitudes and expectations of our public and our policymakers. "Inflation-backlash" is a reality. Given that reality, we simply cannot take the risk of doing what comes naturally and hoping for good luck.

Thus, my principal message is that we cannot count on our current policies to pull us out of the stagflation swamp. The evidence based on the experience of recent years has accumulated and become overwhelming. "Patience and fortitude" is no longer an acceptable response to our disappointments. The time has come to face the likelihood that we have a losing hand, and to deal a new one.

A Fiscal-Monetary Cure?

Some who accept my grim verdict about current policies call for a new monetary-fiscal strategy. And they point in opposite directions. On one side, the argument takes these lines. If a slack economy is not curing inflation, then why take the high costs of slack? Why not try to grow out of the inflation with stimuli that have reliably spurred growth every time they have been applied in the past -- like major permanent tax cuts backed up by a monetary policy committed to low interest rates?

On the other side, the reverse case is made. If inflation is not abating with 5-percent real growth, isn't it clear that we need more restrictive policies to slow the economy down until inflation responds?

These polar-opposite proposals share in common the justified anxiety that our current act of juggling two eggs may lead to both getting broken. But I fear that they have one other thing in common that is less admirable. They are asking us to kid ourselves. The expansionists are right that production and jobs are good things -- but not because they alleviate inflation. Any major stimulative strategy -- taken alone -- will hasten the day that inflation accelerates and that inflation-backlash sets in. The restrictionists are right that a big enough dose of restraint would curb inflation -- but only at the price of some $100 billion of output per point of inflation-reduction.

Some groups in the business and financial community would, no doubt, applaud a hypothetical announcement that the government was cutting its spending by, say, $30 billion and that the Federal Reserve was now setting monetary targets aimed at, say, only 7 percent growth of nominal GNP. But when government contracts were rescinded, when banks began closing loan windows, when cash registers stopped ringing, the responses are entirely predictable -- new waves of layoffs, new slashes in capital budgets, a collapse in productivity, and new demands that the government stop imports, shorten workweeks, and launch programs of makework jobs.

Perhaps the most appealing variant of the restraint prescription is the call for a <u>very gradual</u>, but consistently maintained, slowing of monetary growth and reversal of fiscal stimulus. As far as I can see, that strategy -- taken alone -- offers us a long dull headache instead of a sharp acute one, but no smaller total amount of pain. Moreover, its plan to curb demand gently enough to avoid a recession surely sets a new record for fine-tuning. It reminds me of the story about the Greek boy who thought he could pick up a full-grown bull if he started with a new-born calf and lifted it every day. The first little trimming of total demand is a mere baby calf. It would not do production and employment much harm (nor would it do our inflation performance much good).

But, as time progresses, that calf would grow into a bull -- and we cannot count on lifting it.

A Program for Prosperity and Price Stability

We need an anti-inflation program that is not an anti-growth program, and that goes beyond traditional fiscal and monetary measures. In the past three years, I have assembled long menus of measures that might hold down costs and prices without holding down production and employment. Tonight, I offer a specific set of proposals. I do so uncomfortably -- I left the business of packaging four-point programs nearly a decade ago, and I prefer to stay out of it. I do so diffidently -- because the particular facets of the program have not been polished by staff work or constructive criticism. But I do so enthusiastically because I am convinced that the general approach it embodies represents our best hope for getting out of the stagflation swamp.

No net federal cost-raising. First, the administration should set a target of zero net cost-raising measures for 1978, and should report quarterly to the American people on the achievement of that target. Any new cost-raising governmental action that imposes higher labor costs on employers or higher prices on consumers would have to be neutralized by a federal cost-reducing measure -- lightening the burden of some regulation or providing a cost-cutting subsidy. Thus, we would be insured against any encore of the cost-raising actions of 1977.

Sales-tax-cut incentive. Second, the federal government should institute a grant-in-aid program that would defray half the revenue loss of any state or city that reduced or repealed its sales taxes during 1978. Mayors and governors obtaining the federal aid for sales tax cuts would pledge not to increase other cost-raising taxes during the period (but could raise income taxes). An allocation of $6 billion of federal outlays for this program would fund a

1 percentage point cut in the consumer price index. Sales taxes are part of the cost-of-living -- both genuinely and statistically. Reductions in them would hold down consumer prices and have anti-inflationary effects on wages that are linked, formally or informally, to the cost of living.

Tax relief for price-wage restraint. Third, a tax-relief incentive should be offered to workers and businessmen who enlist in a cooperative anti-inflationary effort. To qualify for participation, a firm would have to pledge,at the beginning of 1978, to hold the average rate of wage increase of its employees below 6 percent and its average rate of price increase below 4 percent (apart from a dollar-and-cents passthough of any increases in costs of materials and supplies) during the course of the year. In return for participation, employees of the firm would receive a tax rebate (generally through withholding) equal to 1½ percent of their wage or salary incomes with a ceiling of $225 per person; and the firm would receive a 5 percent rebate on its income-tax liabilities on domestic operating profits.

Any firm covered by a collective bargaining contract would be obliged to consult with union representatives before deciding to participate in the program. Typical workers who were counting on wage increases of 8 percent (before-tax) or less would benefit from participation.

I would hope for strong moral suasion, led by the President himself, to enlist participants in the program. But non-participation would be a matter of free choice and would not be subject to any penalty. Each participating firm would file a statement of compliance at the end of the year, which would be subject to audit by the Internal Revenue Service.

The total cost in federal revenues of the cooperative restraint program might approach $15 billion; with the sales tax grants, it could total $20 billion. Tax cuts of that magnitude are being widely espoused in the context of the forthcoming tax reform program. I would postpone the tax cuts in the reform package, with the conviction that a pro-growth, anti-inflation program deserves a more urgent priority on the nation's agenda.

Obviously, the increase in purchasing power and profitability provided by the anti-inflationary tax cuts would stimulate consumption and investment. Indeed, the prospect of a credible attack on inflation could reduce the uncertainty that now constricts capital budgeting. If the program achieves its objective of a mutual and balanced de-escalation of wages and prices, there would be no overhang of "catch-up" wage and price increases in 1979. But opportunities should be held open for renewing the program (or phasing it out more gradually) in an effort to cut inflation once again.

New GNP targets. Fourth and finally, the administration and the Federal Reserve, in cooperation, should set forth revised fiscal and monetary targets designed to ensure full recovery and lower inflation. For 1978, those targets should aim for an encore of the increase in nominal GNP of 1977 -- about 10½ percent -- with more real growth and less inflation. For 1979 and 1980, they should aim to bring the growth of nominal GNP progressively into single-digit territory. Thus, they will call for declining federal deficits and slowing money growth (appropriately adjusting for any further significant shifts in velocity). Such a fiscal-monetary strategy should strongly reinforce the credibility of the anti-inflation program and help to ensure that we don't slide back into the swamp.

Still, the first requirement is to get out of the swamp. My program is neither a panacea nor a long-run insurance policy against inflation and stagflation. But its approach offers a good chance of bringing about a mutual de-escalation of prices and wages, and an end to the insidious wave of governmental cost-raising actions. It recognizes that traditional monetary-fiscal policies are powerful tools to promote full recovery and to prevent a resurgence of excess-demand inflation. But it also recognizes realistically that they cannot, by themselves, cure stagflation. That new problem requires the additional help of new remedies, which, of necessity, are unconventional and unproven. Whether the new remedies become politically feasible depends on whether sophisticated Americans, like those in this audience, face up to the reality that we are likely to remain stuck in the stagflation swamp with current policies, and whether they are willing to consider seriously -- and to criticize constructively -- alternative routes to noninflationary prosperity.

52 yeas
35 nays

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RUSSELL LONG -- flatter and praise him; he has been through a tough fight and weathered some severe personal attacks by his colleagues. Congratulate him on getting this controversial bill through the Senate in a very hostile atmosphere. Of course, our work is just beginning; we have to come up with a conference report that will be acceptable to both Houses and to you (the President). We can do that.

BOB BYRD -- flattery and praise of his leadership in mediating and conciliating between powerful colleagues and factions. Gratitude for his solid advice and guidance.

SCOOP JACKSON -- appreciate his efforts to protect consumers and to avoid unjust enrichment of the energy industry. Reassure him that the Senate bill is not acceptable to you